



**Office of Audit Services**  
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September 14, 2010

## **AGENDA ITEM 3b**

**TO: MEMBERS OF THE FINANCE COMMITTEE**

- I. SUBJECT:** Quarterly and Year-End Status Report
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** Information Only
- IV. SUMMARY:**

In accordance with the Finance Committee's Audit Resolution Policy and Procedures and the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Office of Audit Services presents its Quarterly and Year-End Status Report of audit activity. The following provides the status of projects and activities as of June 30, 2010.

### **1. Status of projects and activities**

***Table A – Summary of Activities***

Type of Activity	2009-10 Audit Plan	Projects In Progress	Projects Complete
Internal Audit, Consulting and Follow-Up (Attachment 5A)	41 <sup>A</sup>	9 <sup>B</sup>	41 <sup>B</sup>
Public Agency Reviews, (Attachment 5B)	58 <sup>A</sup>	53 <sup>B</sup>	62 <sup>B</sup>
Financial Statement and Real Estate Contract Audits (Attachment 5C)	N/A	0	28 <sup>B</sup>

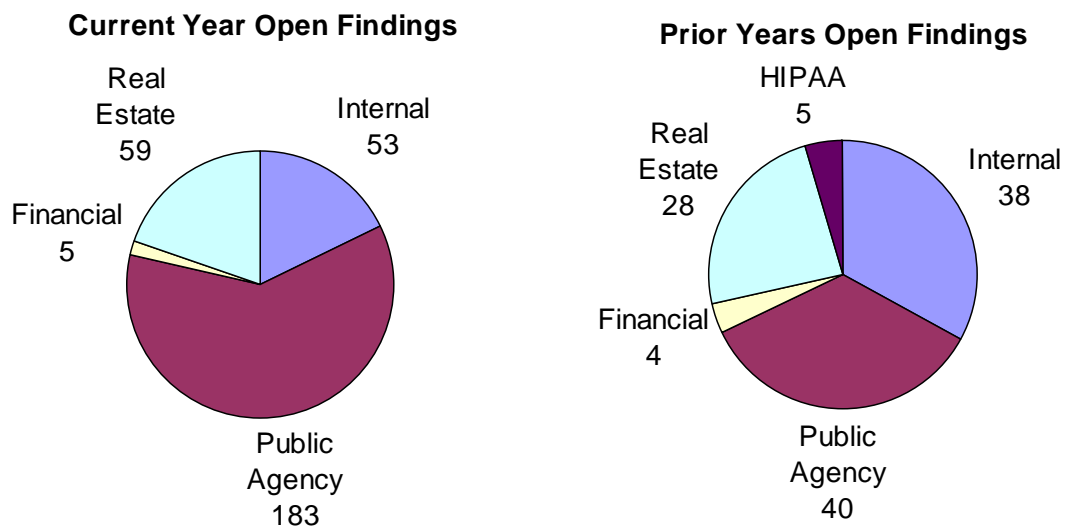
<sup>A</sup> - Includes seven deferred internal audits, four deferred public agency reviews, and two new projects for internal audits as shown in the Attachments

<sup>B</sup> - Includes audits started in prior fiscal year as shown in the Attachments

Table A above provides a summary of the projects by categories.

- Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Internal audit also includes audits of health maintenance organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services.
- Field reviews include compliance reviews of employers belonging to the System.
- Financial statement and real estate audits are contract audits performed by external auditors.

## 2. Status of findings



The charts above provide a summary of the types of open findings. Attachment 1A provides a dashboard status of the audit findings. Detail on all findings is available on file in the Office of Audit Services, upon request, and has been distributed to all appropriate divisions.

### HIPAA-Related Findings

At the request of the Finance Committee, we have included the status of the Health Insurance Portability and Accountability Act (HIPAA) findings. During this fourth quarter, 5 findings were resolved and 5 findings remain in progress. The detailed status is provided in Attachment 3A of this agenda item.

Financial Statement Audit Findings

At the request of the Finance Committee, we have included the status of the current year observations in Attachment 4A and status of prior year observations in Attachment 4B of this agenda item.

Current Year Findings – Major Highlights

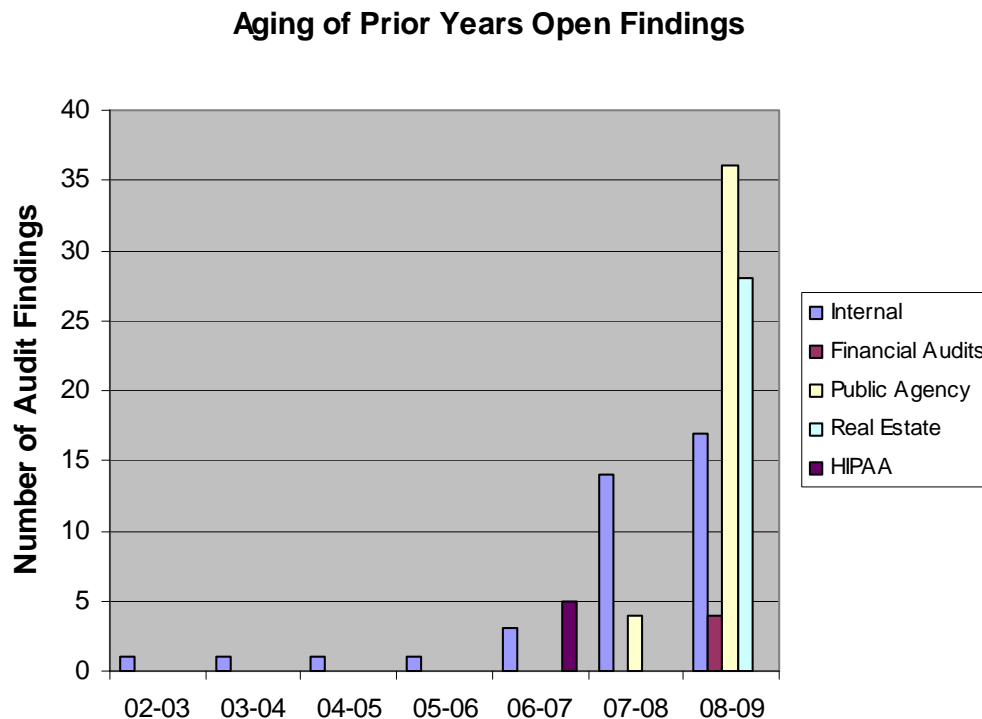
- There were 455 public agency findings issued in the current year and 272 findings, or 60 percent, have been addressed and are complete. A summary of highlighted audit findings from the 2009-10 public agency reviews is at Attachment 2A.
- There were 105 internal audit findings issued in the current year and 52 findings, or 50 percent, have been addressed and are complete.
- There were 142 real estate audit findings issued in the current year and 83 findings, or 58 percent, have been addressed and are complete. A summary of highlighted audit findings from 2009-10 real estate reviews is at Attachment 2B.
- The financial statement audit management letter had seven current year observations. Management has addressed two of the observations and it is pending final verification by Macias Gini & O'Connell.
- During this fourth quarter, management resolved 77 internal findings from the current and prior years. Consistent with the Audit Resolution Policy and Procedures, the Office of Audit Services continues to work with management to resolve all outstanding issues. Management is making reasonable progress in resolving issues.

**3. Corrective Action Plans**

In accordance with the Audit Resolution Policy and Procedures, corrective action plans are required for findings that remain open more than one year or 90 days for significant findings. There are no corrective action plans overdue for internal or external audits.

#### 4. Finding trends

The following graph provides an aging summary of the prior years' audit findings.



#### Finding Trends

- Contracting Public Agency Reviews - Top three common issues and examples:
  - *Incorrect reporting of compensation* (non-reportable compensation such as auto allowance reported, reportable compensation such as uniform allowance not reported, special compensation not reported correctly).
  - *Health eligibility* (health enrollment and declaration of health coverage forms not on file, documentation to support dependent eligibility not provided, divorce decrees not on file).
  - *Retirement contributions/payroll information not reported timely* (retirement contributions not remitted timely, payroll reports not submitted timely).

- Internal Audits – Top three issues and examples:
  - *Documentation* (absent, incomplete, or outdated documentation supporting transactions, reviews, contracts or processes).
  - *Processes* (absent, incomplete, or outdated processes or implementation issues).
  - *Third-party administrator* (contractual and performance reporting issues).
- Real Estate Compliance Reviews - Top three issues and examples:
  - *Fees and unallowable costs* (charging for fees and costs not specified, incorrectly calculated, or allowable by agreement).
  - *Vendor contracting* (improper bidding or unsubstantiated bids for work contracted, no executed contracts on file, or lack of required clauses).
  - *Accounting and reporting* (weaknesses in accounting systems, inadequate reconciliations, untimely submission of reports).

## 5. Overview of Audit Services staff credentials

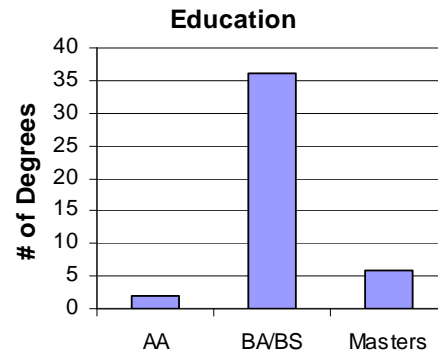
### Education and Experience

Our professional *Standards* require the internal audit activity to collectively possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Office of Audit Services staff possess proficiency in many areas that include internal controls, public agency compliance, risk assessment, financial audits, health programs, information technology systems, information technology security, investments, real estate, benefit administration, and project management. In addition, staff exhibit a high level of educational achievement, complemented with many years of CalPERS and total audit experience, as seen in Tables 1 through 3 below.

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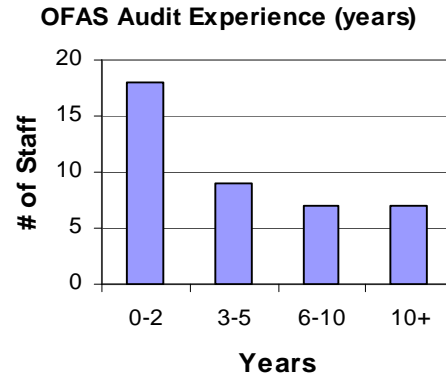
**Table 1 – Education**

Education	Degrees
Associate of Arts	2
Bachelor of Arts or Science	36
Masters	6



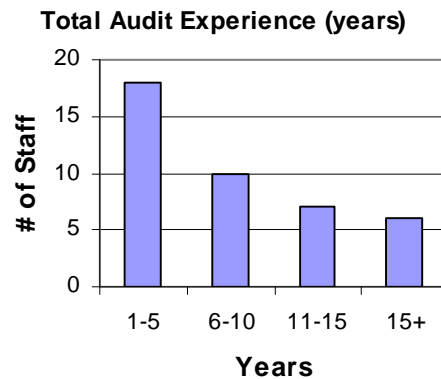
**Table 2 – Office of Audit Services Audit Experience**

Office of Audit Services Experience (Years)	Staff
Up to Two	18
Three to Five	9
Six to Ten	7
More than 10	7



**Table 3 – Total Years of Audit Experience**

Total Audit Experience (Years)	Staff
Up to Five	18
Six to Ten	10
11 to 15	7
More than 15	6



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Titles and Certifications

Audit Services staff, comprising the job titles shown below, hold a wide variety of professional certifications.

Title	No. of Staff
Interim Chief Auditor	1
Assistant Division Chief	1
Supervising Management Auditors	2
Senior Program Evaluators	3
Senior Program Evaluator (Information Systems)	1
Staff Management Auditors	2
Information System Evaluators	4
Public Agency Evaluators	15
Internal Evaluators	<u>16</u>
Total Audit Positions	45

Certification	No. of Staff
Certified Internal Auditor	10
Certified Public Accountant	10
Certified Information Systems Auditor	3
Certified Governmental Financial Manager	3
Certified Investments and Derivatives Auditor	3
Certified Fraud Examiner	<u>1</u>
Total Certifications	30

**6. Results of Customer Satisfaction Survey**

As part of our Quarterly Assurance and Improvement Program required by our *Standards*, the Office of Audit Services sends a customer satisfaction survey at the conclusion of internal audits and public agency reviews. The survey questions focus on the audit process and report, overall value, and communication. For 2009-10, the return response from internal management and public agencies was 89 and 40 percent, respectively. The results of the survey indicate 100 percent of internal management and 81 percent of public agencies' overall responses to the questions were positive. From the suggestions provided, we have identified report turnaround time as an area we plan to target for improvement in fiscal year 2010-11.

**7. Confirmation of Independence of Organizational Independence**

Our professional *Standards* require the Chief Auditor to confirm to the Board, at least annually, the organizational independence of the internal audit activity. The Office of Audit Services is placed organizationally to ensure independence. The Chief Auditor reports administratively to the General Counsel, and has direct reporting responsibility to the Chief Executive Officer and the Finance Committee. The Office of Audit Services Board-Approved Charter and our office's adherence to the Standards also ensure the independence of the audit activity.

**V. STRATEGIC PLAN:**

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

**VI. RESULTS/COST:**

This is an information item and does not result in any risks/costs. Staff is available to answer any questions that the Finance Committee may have.

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MARGARET JUNKER, Chief  
Office of Audit Services

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PETER H. MIXON  
General Counsel